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Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 IO-13 ISO-00 AF-10 ARA-10 EA-10
EUR-12 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00
FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00
NSC-05 PA-01 CTME-00 AID-05 SS-15 STR-07 ITC-01
TRSE-00 USIA-06 SP-02 SOE-02 OMB-01 DOE-11 STRE-00
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E.O. 11652: N/A
TAGS: ETRD, GATT, IS
SUBJECT: GATT - ISRAEL'S REQUEST FOR APPROVAL OF
SPECIFIC DUTY ADJUSTMENTS

REF: STATE 49203

1. ISRAELI DEL APPROACHED US FEBRUARY 27 TO SEEK SUPPORT FOR CHANGES IN SPECIFIC RATES TO CDMPENSATE FOR LOSS IN PROTECTIVE LEVELS STEMMING FROM DEVALUATION OF ISRAELI POUND. ISRAEL HOPES TO PLACE MATTER ON NEXT COUNCIL AGENDA NOW SCHEDULED FOR MARCH 14 BUT DOES NOT KNOW IF PREPARATORY WORK CAN BE ACCOMPLISHED IN TIME TO PLACE ITEM ON AGENDA.

2. WE DISCUSSED PRECEDENTAL NATURE OF MATTER WITH GATT SECRETARIAT (LINDEN, ROSSELER). LINDEN SAYS, FROM LEGAL POINT OF VIEW, THAT OBSOLETE ASPECT OF ARTICLE II:6(A)
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CAN BE CIRCUMVENTED BY HAVING COUNCIL TAKE A DECISION, REFERRING TO "INTENT" OR "SPIRIT" DF ARTICLE II:6(A) AND AUTHORIZING ISRAEL TO RAISE SPECIFIC DUTIES. THE SECRETARIAT HAS SO ADVISED ISRAELI DEL. THE PROBLEM, AS REFTEL IMPLIES, IS NOT NECESSARILY THE MANNER IN WHICH CPS OVERCOME OUTDATED ARTICLE (AS WASHINGTON AWARE, AN AMENDMENT TO ARTICLE II NEEDS A UNANIMOUS DECISION OF

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THE CPS), BUT RATHER THE BASIS ON WHICH SUCH A DECISION IS MADE, SINCE THIS BASIS WILL SERVE AS A PRECEDENT FOR SIMILAR CASES IN THE FUTURE.

3. THE SECRETARIAT BELIEVES THAT THE TRADE WEIGHTED DEPRECIATION SHOULD SERVE AS THE BASIS FOR DETERMINING CHANGES IN BOUND SPECIFIC DUTIES. IF THE TRADE WEIGHTED DEPRECIATION IS GREATER THAN 20 PERCENT, A CP SHOULD BE AUTHORIZED TO MAKE ADJUSTMENTS SIMILAR TO THOSE PREVIOUSLY ALLOWED UNDER ARTICLE II:6(A). THE SECRETARIAT NOTES, HOWEVER, THAT THE IMF SHOULD BE ASKED FOR AN OPINION AS WAS THE CASE UNDER ARTICLE II:6(A) AND HAS ADVISED THE ISRAELI DEL TO DRAFT HIS PROPOSAL AFTER CONSULTATIONS WITH THE FUND. ROSSELER NOTES THAT THIS MATTER WILL POSE A DELICATE PROBLEM FOR THE FUND SINCE THE FUND WILL NEED TO ASSESS THE APPROPRIATENESS OF AN EXCHANGE RATE UNDER FLOATING EXCHANGE REGIME, A JUDGMENT THE FUND HAS HERETOFORE AVOIDED. ALSO, THE FUND WILL NEED TO ASSESS WHETHER THE POUND'S DEVALUATION SHOULD BE CALCULATED IN TERMS OF SDRS, THE DOLLAR, OR TRADE WEIGHTED IN DETERMINING THE AMOUNT OF DEVALUATION AND THE CORRECT ADJUSTMENT IN SPECIFIC DUTIES.

4. IMF DEL (VERA) CONFIRMS THAT QUESTION IS A DELICATE ONE FOR THE FUND AND THAT FUND WILL NEED MORE TIME TO ARRIVE AT AN OPINION. VERA ALSO SAYS THAT FUND UNLIKELY
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TO TAKE DECISION UNTIL IMF TEAM CURRENTLY NEGOTIATING STANDBY WITH ISRAEL COMPLETES ITS WORK SINCE INFORMATION GATHERED IN COURSE OF THESE NEGOTIATIONS WILL HELP FORM BASIS FOR FUND'S OPINION ON ISRAELI REQUEST RE SPECIFIC DUTIES.

5. WE CHECKED WITH OTHER KEY DELS BUT THEY ARE UNAWARE OF ISRAELI POTENTIAL REQUEST. THESE DELS RECOGNIZE DBSOLETE NATURE OF ARTICLE II:6(A) AND BELIEVE THAT WAY SHOULD BE FOUND TO ALLOW CP TO ADJUST SPECIFIC DUTIES EVEN UNDER FLOATING EXCHANGE SYSTEM IF CURRENCY HAS SUFFICIENTLY DEPRECIATED. NONE, HOWEVER, HAVE EXAMINED HOW MATTER COULD BE ACCOMPLISHED IN THIS SPECIFIC CASE.

6. COMMENT: ALTHOUGH WE THINK THAT A MEANS SHOULD BE SOUGHT TO GIVE EFFECT TO INTENT OF ARTICLE II:6(A) IN CHANGED EXCHANGE RATE ENVIRONMENT, WE DO NOT BELIEVE THAT CPS SHOULD BE RUSHED INTO A DECISION ON THIS CASE GIVEN ITS PRECEDENTAL ASPECTS. WE ALSO BELIEVE THAT FUND'S COOPERATION AND OPINION SHOULD BE SOUGHT. WE DOUBT, IN VIEW OF GATT SECRETARIAT ADVICE AND IMF RELUCTANCE TO MOVE PRECIPITOUSLY, THAT ISRAEL DEL WILL DECIDE TO

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INSCRIBE ITEM ON NEXT GATT COUNCIL AGENDA. WE WILL ALSO DISSUADE ISRAELIS, UNLESS INSTRUCTED OTHERWISE, FROM INSCRIBING ITEM ON GATT AGENDA FOR DECISION AT MARCH 14 MEETING. RATHER, WE WILL SUGGEST THAT THEY DISCUSS MATTER UNDER OTHER BUSINESS SO THAT CPS CAN HAVE ADEQUATE TIME TO REFLECT ON MATTER BEFORE NEXT COUNCIL. END COMMENT. VANDEN HEUVEL

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